MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BAC4644 – ADVANCED TAXATION

(All sections / Groups)

8 MARCH 2017
9 a.m. – 12 noon
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 14 (FOURTEEN) pages (excluding the cover page) with 5 Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet.

QUESTION 1

(a) Das has operated the Das Café ('the Café) for the last two years. The café is not currently registered for goods and services tax (GST) purposes as its past annual taxable sales turnover range from RM450,000 to RM480,000.

Das has been reviewing details of the café's annual turnover and has determined the following:
– the value of the taxable and exempt supplies for June 2016 (the current month) is RM100,000 and RM10,000 respectively;
– the total taxable supplies for the previous eleven months from July 2015 to May 2016 is RM402,000; and
– the future sales turnover for the eleven months from July 2016 to May 2017 is estimated to be RM380,000.

Required:

(i) State with reasons, whether Das Café is required to register for the purposes of the Goods and Services Tax Act 2014 (as amended) and if so, when he should notify to the Royal Malaysian Customs and when the effective date for registration is.

(4 marks)

(ii) Assuming Das Café does have to register for GST, state, with reasons, how frequently Das Café will have to submit its regular GST returns.

(2 marks)

(b) Sri Lankan Crabs Sdn Bhd, a restaurant which is registered for goods and services tax (GST), purchased goods and services from GST registered suppliers as shown below. All amounts are stated inclusive of GST, where applicable.

Item	**RM**
(1) Purchases of raw crabs	1,300
(2) Electricity and water for business premises	1,060
(3) Medical expenses of employees	424
(4) Repair and maintenance of company passenger car (used by the finance manager)	9,540

Required:

Compute the input tax which is claimable by Sri Lankan Crabs Sdn Bhd on each of the above purchased items (1) to (4). If no input tax is claimable, indicate this by the use of the word 'nil'.

(4 marks)

[Total 10 marks]

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QUESTION 2

(a) Tuju Trust Fund (the Fund) is an open end unit trust fund set up to invest in shares, securities and bonds. For the financial year ended 30 September 2016, the income statement of the Fund was as follows:

Tuju Trust Fund
Income Statement for the year ended 30 September 2016

	RM	RM
Dividends (single tier) from shares listed in the Bursa Malaysia		800,000
Dividend income from overseas investments		200,000
Interest from convertible loan stocks		500,000
Interest from CIMB		300,000
Gains from disposal of shares		700,000
		2,500,000
Less:		
Expenses		
Manager's remuneration	200,000	
Audit and accounting fees	50,000	
Stationery and printing	10,000	
Share registration expenses	10,000	
Trustees' fees	30,000	300,000
Net profit for the year		2,200,000

CIMB is a Malaysian bank licensed under Financial Services Act 2013.

Melati Sdn Bhd (Melati) is a Malaysian tax resident company that holds 10,000 units of the Fund. On 1 March 2016, Melati received a net distribution of RM30,400 (after tax of 24%) from the Fund. Besides investing in Tuju, Melati is also a unit holder in a real estate investment trust fund (REIT) which is exempted from tax for the year of assessment 2016. Melati received RM10,000 distribution from the REIT for the year.

Required:

(i) Compute the chargeable income of Tuju Trust Fund for the year of assessment 2016.

(6 marks)

(ii) Explain how Melati Sdn Bhd will be taxed in relation to the distribution received from Tuju Trust Fund for the year of assessment 2016.

(2 marks)

(iii) Discuss the tax treatment applicable to Melati on the distribution received from REIT for the year of assessment 2016.

(2 marks)
(Total 10 marks)

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(b) Great Insurance Bhd ('the company') is a locally incorporated insurance company carrying on the business of life insurance and general insurance. It has a paid up capital of RM12million as at the first day of the basis period for the year of assessment 2016. The company has furnished the following accounts for the financial year ended 31 December 2016:

Great Insurance Bhd
Income Statement for the year ended 31 Dec 2016

		LF RM'000	SF RM'000	GI RM'000
Income				
Gross premium		40,000	0	16,500
Interest income		262	3,678	175
Rental income		525	2,453	613
Dividend (single tier)		3,153	17,519	0
Sale of shares		3,678	24,526	0
Sale of building		4,560	85,843	0
Sale of land		2,453	34,193	0
Reserve for unexpired risk b/f		443	554	554
	(a)	55,074	168,766	17,842
Less: Expenses				
Net claims incurred		4,905	2,562	4,204
Management expenses		900	900	1,100
Commissions		1,226	468	525
Cost of shares		2,803	7,007	0
Cost of building		3,876	73,580	0
Cost of land		1,576	28,038	0
Reinsurance premium		11,189	8,856	1,575
Reserve for unexpired risk c/f		387	498	4,257
	(b)	26,862	121,909	11,661
Profit	(a - b)	28,212	46,857	6,181

Note: *LF = Life fund; SF = Shareholder's fund; GI = General insurance*

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The company has also furnished additional information as follows:

Reinsurance and net premiums paid

	MAT RM 000	FMO RM 000	Total RM 000
Gross premium received	8,800	7,700	16,500
Less:			
Reinsurance in Malaysia	700	350	1,050
Reinsurance outside Malaysia	350	175	525
	1,050	525	1,575
Net premium	7,750	7,175	14,925

Note:
MAT =Marine, aviation and transit policies
FMO = Fire, motor and other policies

Reserve for unexpired risk

The company has confirmed that as at 31 December 2016 the reserve for unexpired risk carried forward for the general insurance includes a reserve of RM 600,000 for unexpired risk in respect of fire, motor and other policies (FMO) that is based on the actuarial computation. The tax auditor has verified that the method of calculation has been consistently applied in accordance with section 60(9) (b) of the Income Tax Act 1967 (as amended).

The reserve for unexpired risk in respect of the general insurance allowed for the year of assessment 2015 was RM 554,000.

Capital allowance for the year of assessment 2016

Capital allowance	RM000
Life fund	26,278
Shareholder's fund	23,358
General insurance	249

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Unabsorbed losses brought forward to the year of assessment 2016

Unabsorbed losses b/f	RM000
Life fund	98,106
Non-life fund	82,156

Required:

Compute the chargeable income of Great Insurance Bhd for the year of assessment 2016.

(10 marks)

[Total 20 marks]

QUESTION 3

(a) The Jerantut Co-operative Society (Society) provides services for the fruit farmers in the Jerantut district. The Society closes the accounts to 31 December each year. The accounts for the year ended 31 December 2016 showed the following results:

Jerantut Co-operative Society
Income Statement for the year ended 31 December 2016

	RM	RM
Sales		1,412,000
Less: Cost of goods sold		300,000
Gross profit		1,112,000
Add:		
Members' entrance fee	18,866	
Members' subscription fee	70,435	
Rental of farm machinery to non-members	5,000	
Interest from loan to members	11,320	105,621
		1,217,621
Less:		
Secretarial fee	20,684	
Accounting fee	26,550	
Depreciation	3,338	
Donation	50,400	
Fertilizers and insecticides	240,000	
Transport of members' products	31,802	
Repairs and maintenance of farm machines	92,546	
Office rent	9,875	
Interest on members' savings	4,488	
Utilities charges	84,962	564,645
Audited net profit		652,976
Less: Contributions to:		
Universiti Malaya	17,000	
Co-op Development Trust Fund	15,000	
Statutory reserve fund	35,000	67,000
Unappropriated profits		585,976

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Member's fund as at 1 January 2016	RM
Paid up share capital	700,000
Share premium account	4,453
Statutory reserve fund	81,997
Reserves from revaluation of assets	150,000
Balance of profit and loss appropriation account b/f	124,674
Total	1,061,124

Other information

The society is entitled to a capital allowance of RM9,777 for the year of assessment 2016. The society was registered in the year 1991.

Required:

(i) Compute the chargeable income of the Jerantut Co-operative Society for the year of assessment 2016.

(10 marks)

(ii) State the conditions for a Co-operative Society to be exempted from income tax under the Income Tax Act 1967 (as amended).

(2 marks)

(b) GSP Shipping Lines is a non-resident shipping company ('the company') involve in transporting cargo by sea. For the year ended 30 June 2016, the company derived RM1.5 million from gross freight loaded at Malaysian ports. Malaysia has a double tax agreement with the country where the shipping company is resident, under which shipping income charged to tax is entitled to a double tax relief of 50% allowed by the country from where the income is derived. For the year of assessment 2016, the company made a donation of RM5,000 to an approved Malaysian charitable institution.

In November 2016, the company produced an Acceptable Ratio Certificate issued by the Austrian revenue authority (which is acceptable to the Director General of Inland Revenue, Malaysia) that included the following information:

Particulars	**RM**
Gross world shipping income	4,217,000
Adjusted world shipping income	2,811,000
World capital allowance	700,000
Gross shipping income derived from Malaysia	1,500,000

Required:

Compute the tax payable of GSP Shipping Lines for the year of assessment 2016 under the:

(i) The 5% method; and

(ii) Acceptable ratio certificate method

Note: The Malaysian income tax rate on non-resident company is 24%.

(8 marks)

[Total 20 marks]

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QUESTION 4

(a) Mr. Terrance Lim carried on the business of dealing in construction hardware. He had a wife and four children. He died in 2012 of a heart attack, a few months after the birth of his last child. Before his death he wrote a will creating a trust, which among other things, provided as follows:

(i) The wife would be the trustee of the trust and will also continue to manage the hardware business after his death.

(ii) The four children would be the beneficiaries and they, together with the wife, would be provided as follows:

a. The first child would be entitled to one-quarter of the trust distributable income that would be paid at the discretion of the trustee;

b. The second and the third child would each be entitled to a one-half of the balance of the distributable income.

c. The trustee is to make an accumulation of RM20,000 for the last child till the child attains the age of 21 years.

In accordance with the terms of the trust, Mrs. Lim made the following payments or arrangements, for the year ended 31 December 2016 as follows:

No.	Recipients	Amount (RM)
1	Annuity to herself	24,000
2	First child	52,582
3	Second child	50,000
4	Third child	50,000
5	Fourth child (sum to be accumulated)	20,000
	Total	196,582

The trust received income from investments during the year ended 31 December 2016. The details of which, according to Mrs. Lim, are as follows:

No.	Particulars	Amount (RM)
1	Rent from a property in Malaysia	14,978
2	Interest from a fixed deposit in a local bank	4,087
3	Dividends (Malaysia)(single tier)	6,796
4	Dividends (Singapore)(remitted in 2016)	9,672

The trust deed was challenged by Mrs. Lim's sister-in law in 2016 and this matter was taken to court. However on the advice of the lawyer, the issue was settled out of court and the following expenses were incurred:

(i) Legal fees to obtain professional advice: RM3,745

(ii) Out of court settlement to the sister-in law: RM50,000

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Mrs. Lim made a cash donation of RM30,000 under the name of the trust to an approved charitable body and another donation of food packets worth RM2,000 to an approved religious body during a festive occasion in remembrance of her late husband. Mrs. Lim also charged in the books of the business, a fee of RM20,000 for administering the trust. These expenses (legal fees, out of court settlement costs, donations and trustee fee) are included under 'Expenses' in the business account. The balance of the expenses, other than those mentioned above, are incurred wholly and exclusively for the purposes of the business as per the auditor's report.

Construction hardware business	**RM**
Gross income from business	521,042
Less: Expenses	(223,183)
Net profit	297,859

The auditor has also confirmed that for the current year of assessment the trust will be claiming a capital allowance of RM44,637 and a balancing allowance of RM22,318. The trust has a balancing charge of RM14,816 arising from the disposal of the van used for the business and met with an accident in the early part of the year. The trust business did not do too well in 2015 and has an unabsorbed loss of RM5,617 and an unabsorbed capital allowance of RM47,480 brought forward to the current year. The trust distributable income for the year ended 31 December 2016, before accumulation, was RM230,326.

Required:

With reference to the Income Tax Act 1967 (as amended), compute the chargeable income of the trust, and the beneficiary's share of the trust total income for the year of assessment 2016.

Note:

Assume that the Director General of Inland Revenue has allowed the application of section 61(2) of the Income Tax Act 1967 (as amended) to the trust income.

(15 marks)

(b) Mr. Donald Lim was a Malaysian resident carrying on three businesses – two in Malaysia and another one in Singapore. He passed away on 30 September 2016 in an accident. He had not prepared a will. The businesses he carried on closed the accounts to 31 December each year. For the year ended 31 December 2016, the trading results according to the accountant, were as follows:

Business		RM
Business 1 (Malaysia)	Adjusted income	130,680
Business 2 (Malaysia)	Adjusted loss	52,837
Business 3 (Singapore)	Adjusted income	21,790

Business 2 ceased operations in June 2016. Mr. Donald Lim's other income consists of a rental source from a property in Kuala Lumpur, a single tier dividend from a public listed company, as well as interest from a fixed deposit in a local Malaysian bank.

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The details of these other income are as follows:

Income	**RM**
Rental (year ended 31 Dec 2016)	26,136
Dividend (Malaysian single tier paid in October 2016)	10,249
Interest (received in May 2016)	4,329

Mr. Donald Lim left behind a wife and a child aged 10 years old in January 2016. At the time of his death, Mr. Donald Lim was domiciled in Malaysia. The administrator is one Mr. Leong, his close friend and a practicing accountant. He administered the estate till the financial year end 31 December 2016 and made an annuity payment to the wife of RM12,000 before the estate was wound up. Mrs Lim has no sources of income. Mr. Leong then liquidated the estate and made a distribution to the beneficiaries as follows:

Mrs. Lim, wife of the deceased	RM290,000
Child of the deceased	RM290,000

Required:

Compute the chargeable income for the year of assessment 2016, in respect of:

(i) Mr. Donald Lim , assuming that only the wife and child relief of RM4,000 and RM2,000 respectively were claimed by him;
(ii) The estate of Mr. Donald Lim (deceased).

(10 marks)
[Total 25 marks]

QUESTION 5

(a) Miss Rita joined an accounting firm three years ago and her job functions consisted mainly of managing the income tax compliance needs of several corporate clients. Recently her Senior Manager has requested her to look into the tax planning aspect of one of her clients. Miss Rita is rather vague on matters of tax planning, and accordingly has approached you for some guidance.

Required

In the context of the Income Tax Act 1967 (as amended), explain briefly to Miss Rita what 'tax planning' is essentially about, including the extent and limits to which a planning can be carried out.

(5 marks)

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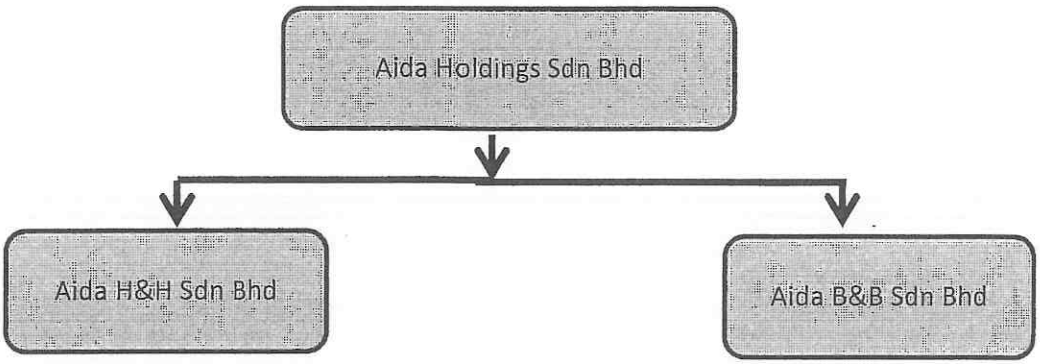
(b) Aida Holdings Sdn Bhd is a holding company with two wholly owned subsidiaries: Aida H&H Sdn Bhd and Aida B&B Sdn Bhd (see Figure 1).

Figure 1: The existing company structure



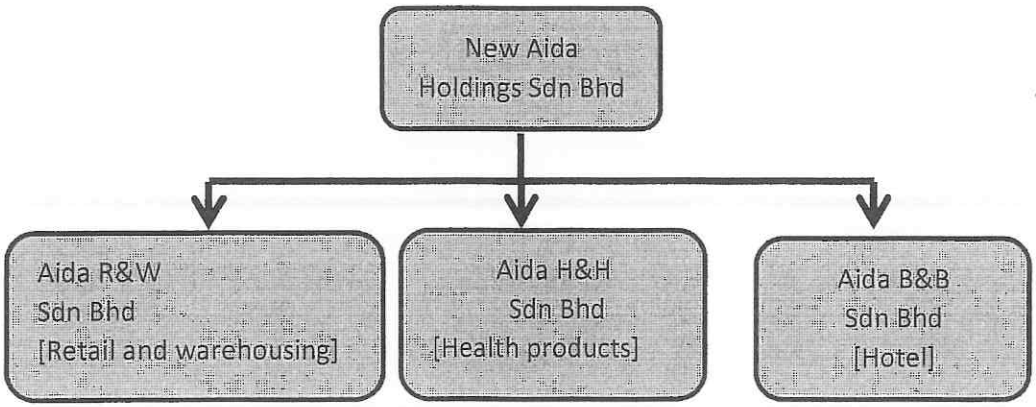
The companies have been in business for several years – and all close the accounts to 31 December each year. The company business operations are as follows:

- Aida Holdings Sdn Bhd operates several outlets for groceries and sundry goods.
- Aida H H&H Sdn Bhd is involved in the distribution of a patented herbal health drink.
- Aida B&B Sdn Bhd operates a three star hotel at Perhentian Kajang, a train and bus transport hub, providing bed and breakfast services.

The group plans to restructure and expand the business operations, and at a recent Board of Directors ('the Board') meeting in April 2016, several matters were discussed, including the following:

(i) A proposed corporate re-structuring (see Figure 2);
(ii) Raising of additional capital; and
(iii) Business expansion.

Figure 2: Proposed corporate structure



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- The Board agreed that the restructuring and expansion would need RM50 million additional capital, which could be raised as follows:

    - through a commercial bank loan;
    - a loan from the directors; or
    - issue of additional shares to the existing shareholders.

  The incidental expenses of raising the capital such as legal, professional fees, facilitation fees and stamp duties are incurred.

- It would incorporate a company, New Aida Holdings Sdn Bhd ("New Aida") to be the new holding company and the existing companies would be placed under it with direct share controls. New Aida will derive its income mainly from the holding of investments in these three subsidiaries.

- Aida Holdings Sdn Bhd will be renamed as Aida R&W Sdn Bhd (Aida R&W). It will essentially carry on the retail business, including a warehousing activity of the groceries and sundry goods. The existing retail outlets would be renovated to include new lighting system, furniture and fitting, cooling system, and plant and machinery connected therewith. Additional motor vehicles would be acquired for the distribution activities.

- Aida H&H Sdn Bhd (Aida H&H) will continue to distribute the patented herbal drink. In addition, it will look for opportunities for the distribution of other branded or patented health drinks and health foods, particularly from India, China and Japan.

- Aida B&B Sdn Bhd (Aida B&B) would acquire additional buildings near bus terminals, specifically one at Bandar Tasik Selatan and provide cheap accommodation with bed and breakfast for overnight travelers. The present hotel, and those that will be acquired, will be renovated to include new lighting system, furniture and fitting, cooling system and related plant and machinery. The Board plans to acquire additional motor vehicles to provide augmented services for guests of the hotel to give the hotel a competitive edge in the business.

- The board had discussed the acquisition of new lighting system, furniture and fitting, cooling system, plant and machinery and the motor vehicles (vans and mini lorries) mentioned above, and considered the following options to finance them:

    - Using an operating lease;
    - Using a financial lease (non-deemed sale);
    - Using a hire purchase mode; or
    - Cash purchase using funds obtained from the additional capital raised.

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However, the Board has not decided which of the option they would choose but had indicated its plan to you and had sought your advice from an income tax point of view.

Required:
Based on the information supplied and with reference to the Income Tax Act 1967 (as amended) advise the Board of Directors on the following matters:

(i) Issues relating to the raising of the additional capital of RM50 million; and
(ii) The options of financing the capital expenditure to be incurred on the new lighting system, furniture and fitting, cooling system, plant and machinery and the motor vehicles.

(10 marks)

(c) Solar Power Sdn Bhd ('Solar Power') is a Malaysian resident company that manufactures solar cells for residential and industrial roof top power generation. It recently ventured into the manufacture of a new type of solar power storage battery that involved some technological breakthrough. This new battery can retain power generated from sunlight for long period of time and has great potential for use in cold countries with short summer and in artic conditions and even on spacecraft. However in inventing this battery, Solar Power incurred heavy losses for the last seven years.

As a result, it has unabsorbed losses of RM10 million and unabsorbed capital allowances of RM3 million brought forward to the year of assessment 2016. Solar Power's auditors are of the view that Solar Power would take several more years before it could make any profits.

Solar Products Sdn Bhd ('Solar Products') is a local Malaysian company and its holding company is SP Management plc, a company incorporated and resident in India. Solar Products, with the business and financial support of SP Management plc is interested in acquiring Solar Power. During the last round of negotiation in March 2016, it was agreed that Solar Products would acquire the entire paid up shares of Solar Power for a consideration of RM20 million ('the acquisition').

At a recent Board Meeting of Solar Products in Kuala Lumpur, it was announced that the money for the acquisition would be funded as follows:

- RM10 million would be advanced by SP Management plc of India without any collateral or guarantee, at an interest rate of 20% per annum; and

- RM10 million borrowings from a local Malaysian bank at an interest rate of 5% under a special scheme supported by the Malaysian government for funding innovative power ventures. This loan requires compliance with several terms and conditions imposed by the government.

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Required:

(i) Identify the transfer pricing issues (if any) in respect of the acquisition;

(ii) Explain how it could be viewed by the Malaysian revenue authorities; and

(iii) Explain how this could be resolved in favour of the taxpayer.

(10 marks)
[Total 25 marks]

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APPENDIX 1

Income tax rates for the year of assessment 2016

• Resident company with paid up capital of RM2.5 million and below at the beginning of the basis period	
On the first RM500,000 chargeable income	19%
On the subsequent chargeable income	24%
• Resident company with paid up capital above RM2.5 million at the beginning of the basis period	24%
• Non-resident company	24%

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